

Payment Made Simple

Streamlined Process Spares Most from Lengthy Paperwork

Qualifying taxpayers can make installment payments on their California taxes without completing a financial statement.

To qualify, the taxpayer must:

- Owe no more than \$10,000,
- Agree to pay his or her liability by electronic fund transfer within three years; and,
- Have already filed all the tax returns required by the Franchise Tax Board.

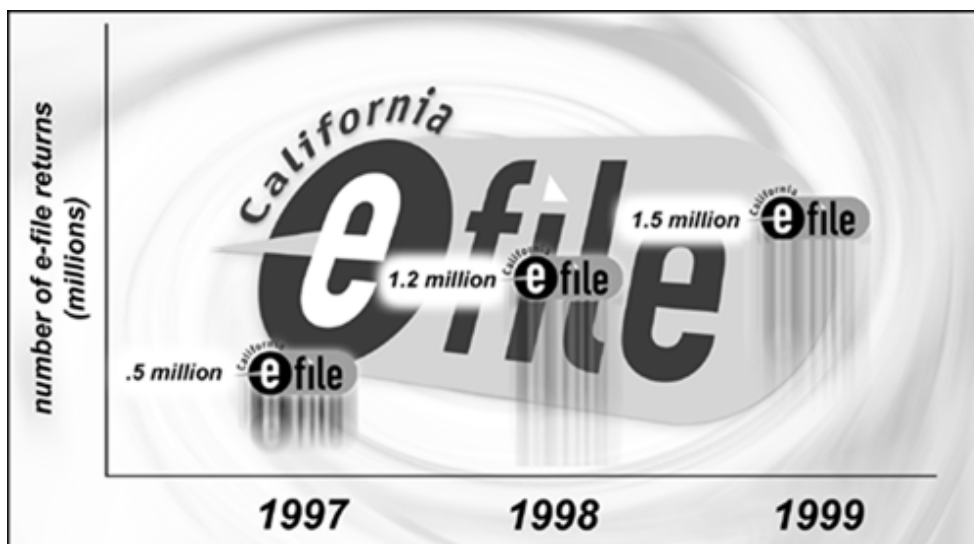
Under this criteria, less than 10 percent of debtors are required to complete the more extensive financial statement in order to enter into an installment agreement with FTB.

In order to qualify, eligible taxpayers must complete form FTB 3567, "Installment Agreement Request." The one-page form contains an EFT authorization.

Since its introduction last year, the simplified form FTB 3567 has streamlined the installment agreement application process and the EFT feature has made making payments easier and more economical for taxpayers.

Taxpayers no longer have to write checks or pay postage. And, the payments are always on time.

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The Franchise Tax Board's e-file program has grown steadily since its introduction in 1994. Go to page six to see why.

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Tax News

Volume 99-4 July 1999

TAX NEWS is a bimonthly publication of the Communications Services Bureau, California Franchise Tax Board. Its primary objective is to provide information to income tax professionals about state income tax laws, regulations, policies and procedures.

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or call: (916) 845-7070.

To view TAX NEWS on the Internet or to request an electronic mail subscription, contact FTB on the Internet:
www.ftb.ca.gov

For information about a client's account, contact:

Tax Practitioner Support Unit
(916) 845-7057 (phone)
(916) 845-6377 (fax)

For recorded answers to questions on California taxes, to order forms or check on a refund, call:

F.A.S.T. (800) 338-0505
From outside U.S. (916) 845-6600

To send a facsimile about a client's account, transmit to:

Electronic Correspondence
(916) 845-6377

Information Center:
(800) 852-5711

From outside U.S. (916) 845-6500

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TDD (800) 822-6268

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Offer in Compromise

Telephone Calls Help Boost Approval Rates

You can't always tell a book by its cover. So when it comes to evaluating offer in compromise applications (form FTB 4905), the Franchise Tax Board contacts each applicant (or the applicant's representative) by telephone before making a decision.

Since adopting this approach in 1997, approval rates for offers in compromise have steadily increased. Currently, 44 percent of the applications accepted for processing (and not subsequently withdrawn by the taxpayer) have been approved.

The personal contact generally results in a more complete explanation of the personal, medical or financial circumstances involved, and it generally results in a more equitable resolution for the taxpayer, according to Offer in Compromise Program staff.

The Offer in Compromise Program is for taxpayers who do not have, and will not

have in the foreseeable future, the income, assets or means to pay their tax liability. It allows a taxpayer to offer a lesser amount for payment of a non-disputed final tax liability.

FTB also revised form FTB 4905, "Offer in Compromise Booklet and Application," by adding a checklist of the items needed to ensure expeditious processing and a section containing frequently asked questions about the program.

To learn more about the Offer in Compromise Program, go to the FTB website at www.ftb.ca.gov and click on the Bills and Notices button. The application can also be downloaded from the Miscellaneous section of the FTB Forms and Publications webpage, also located on the FTB website.

If you are interested in a complete overview of the program, contact the program staff at (916) 845-4787 and ask to schedule a presentation for your group.

Installments: Employers Also Benefit

EFT Feature Removes Administrative Burden

Continued From Page 1

Installment agreements without EFT had default rates as high as 40 percent. Installment agreements using EFT have maintained a default rate of less than three percent.

The improved FTB installment agreement is good news for employers as well. Taxpayers receiving a wage garnishment may convert to an installment agreement if they meet FTB's criteria. The administrative burden is removed from the employer. And, the taxpayer's monthly payment may be smaller than what would have been withheld from his or her paycheck.

If you have clients who are interested in applying for an FTB installment agreement, the first step is to obtain a form FTB 3567. There are several ways to get the form:

- **Download the form.** Go to the FTB website at www.ftb.ca.gov and click on the Tax Forms button.
- **Call the toll free automated telephone service.** The number is (800) 338-0505.
- **Mail a request for the form to:**
Tax Forms Request
Franchise Tax Board
PO Box 307
Rancho Cordova, CA 95741-0307

How Does FTB Define “Fair Offer?”

The Offer in Compromise Program offers a remedy for certain tax liabilities for eligible taxpayers, but the program is not for everyone. Here are the answers to frequently asked questions about the program that can help you decide if an offer in compromise is right for your client.

- | | |
|--|---|
| <p>Q. What does the Franchise Tax Board consider a fair offer in relation to the amount due?</p> <p>A. Generally, FTB accepts an offer when the amount offered is more than FTB can expect to collect within a reasonable period of time.</p> | <p>Q. Can prior payments be applied to the offered amount?</p> <p>A. No. Prior payments are not accepted towards the offered amount. However, prior payments and the offered amount compared to the total liability are taken into consideration when evaluating an offer.</p> |
| <p>Q. How long will it take to get a decision on an offer in compromise?</p> <p>A. Generally, if FTB accepts the offer for processing, FTB will have a decision for your client within 90 days after receiving the offer. If your client's account is more complex, it may take longer than 90 days.</p> | <p>Q. My client's Internal Revenue Service offer in compromise has been accepted. Will FTB automatically approve the offer?</p> <p>A. No, the FTB offer will be evaluated separately from the IRS offer. Generally, if the amount of the offer represents the most that FTB can expect to collect within a reasonable period of time, FTB will accept your client's offer.</p> |
| <p>Q. What is a collateral agreement?</p> <p>A. A collateral agreement is a contractual agreement between your client and FTB. By signing the agreement, your client agrees to pledge to FTB a percentage of his or her income that exceeds an amount agreed upon by the taxpayer and FTB. Generally, the collateral agreement period is five years.</p> | <p>Q. If FTB determines that my client's offer is not acceptable, will my client be contacted?</p> <p>A. In most cases, FTB will contact the taxpayer to discuss the account and to determine the most appropriate resolution.</p> |
| <p>Q. If an offer is approved, will my client have to sign a collateral agreement?</p> <p>A. If your client is on a fixed income or has limited potential for increased earnings, a collateral agreement generally will not be required.</p> | <p>Q. My client is single now. If he marries while the collateral agreement is in effect how will this affect the agreement?</p> <p>A. If your client marries while the collateral agreement is in effect, FTB will review any joint tax returns he is required to file. Generally, FTB considers the joint annual income in the collateral agreement. If your client is married and filing a separate income tax return, the evaluation will be based on the separate income of the taxpayer with the agreement.</p> |
| <p>Q. Will state tax liens be released if my client's offer is accepted?</p> <p>A. Generally, FTB releases state tax liens upon final approval of the offer in compromise.</p> | |
| <p>Q. Can my client make payments on the offered amount?</p> <p>A. No. FTB requires full payment of the offered amount at the time the offer is submitted for approval.</p> | |

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Form 911 Helps with Hardships

hard·ship \härd-'ship'\: something that causes or entails suffering or privation.

There are many types of hardship. If one of your clients has a hardship, there is a way to provide him or her some relief.

The form FTB 911, “Request for Relief From Hardship,” enables you to obtain immediate relief for your client when they experience hardship as a result of collection action taken by FTB. The new form can be downloaded from the FTB website at www.ftb.ca.gov.

The form is for tax practitioner use only. When you submit the form, be sure to include a completed form FTB 3520, “Power of Attorney.”

FTB also provides, for tax practitioners only, a Collections Fax Help Line. Use the help line to get a fast resolution to personal income tax collection issues.

The fax line number, (916) 845-0494, is available 24 hours a day, seven days a week. In most cases, a response is provided to the practitioner within 48 hours.

Legislative Analyses on the Internet

Would you like to know more about a legislative measure you read about in Tax News? The Franchise Tax Board posts its analyses of legislation on its website.

Go to www.ftb.ca.gov and click on the Law and Legislation button. These provide a preview of proposed tax law changes and how they might affect your clients if the legislation becomes law.

FTB also posts proposed and final regulations, legal notices and rulings, links to the Revenue and Tax Law and the California Code of Regulations, and a directory of FTB Legal staff.

You can also find legislative measures at www.leginfo.ca.gov, which is the Official California Legislation Information website.

News From the State Board of Equalization

Here are annotations of recent State Board of Equalization appeals.

Appeal of Alpha Therapeutic Corporation, 98-SBE-004, July 30, 1998. In a published decision, the State Board of Equalization upheld the position of the Franchise Tax Board that Revenue and Taxation Code Section 33 does not exempt a corporation from paying the California Franchise Tax as measured by that corporation's net income. Section 33 specifically exempts blood and blood products from taxation. Alpha Therapeutics, a business dealing in blood and blood products, argued that the franchise tax as applied to them was, in effect, a tax on blood products in violation of Section 33. The Board rejected this argument stating that the franchise tax is a tax on the privilege of doing business and may be measured by net income, even where that net income is derived from the sale of otherwise tax exempt property.

Appeal of the Automobile Club of Southern California, 98-SBE-005, November 19, 1998. The State Board of Equalization rejected the Franchise Tax Board's argument that the holding of California State Automobile Association (CSAA) v. Franchise Tax Board, (1987) 191 Cal. App.3d 1253, (where the court found that CSAA was properly taxed as a cooperative association) also required the appellant to be taxed as a cooperative association. The appellant had consistently filed franchise tax returns as a regular corporation. The State Board of Equalization determined that the CSAA case was not controlling, the Auto Club properly filed franchise tax

returns as a regular corporation, and the Auto Club should not be taxed as a cooperative association, but as a regular corporation.

Appeal of Barbara Godek, 98-SBE-006, November 19, 1998. For purposes of determining whether a married taxpayer may be considered unmarried, the rule stated by the State Board of Equalization in *Appeal of William Tierney*, 97-SBE-006-A, September 10, 1997, applies. That is, one-half of the time during which the taxpayer, the taxpayer's spouse and the taxpayer's child lived in the taxpayer's home may be included in determining if the taxpayer's home was the principal place of abode of the taxpayer's child for more than one-half the year.

Appeal of Patrick R. Lobo, 99-SBE-001, January 7, 1999. Although the appellant was entitled to a personal exemption credit for an unrelated adult who was the taxpayer's dependent and who lived with the taxpayer in the taxpayer's home for the entire year, in this case the State Board of Equalization held that the adult did not qualify the taxpayer for head of household filing status because the "foster" relationship between the taxpayer and the adult did not begin while the adult was a minor.

Appeal of San Francisco Police Credit Union, 99-SBE-002, January 7, 1999. The State Board of Equalization modified FTB's partial disallowance of a credit union's deduction of income based on Surplus Member Savings Capital (SMSC), and directed the FTB to apply the formula set forth in FTB Notice 92-7, as clarified by the Board.

Appeal of Daniel Q. and Janice R. Callister, 99-SBE-003, February 25, 1999. Maryland residents were allowed a credit for taxes paid to the State of Maryland for county "surcharge" taxes paid to Maryland in an amount not to exceed the 20 percent "surcharge" mandated by the state. The balance of the "surcharge" paid, if any, is treated as a local tax not available for credit.

Credit Card Program Broadens to Accept Estimate Payments

Encouraged by strong taxpayer interest, the Franchise Tax Board is expanding its credit card payment pilot to include personal income tax estimated tax payments and current year tax returns.

Beginning mid-August, taxpayers will be able to use their Discover/NOVUS, MasterCard or American Express credit card to make third quarter estimated tax payments. And beginning in the year 2000, taxpayers who file a balance due personal income tax return may pay by credit card.

The credit card option will be available to taxpayers who e-file, use TeleFile or file paper returns.

FTB launched a six-month credit card pilot in January 1999. Within those six months, FTB received more than 4,670 payments totaling nearly \$3,660,000.

Here's how the program works:

1. The taxpayer calls a toll-free number to access an interactive voice response system operated by an FTB-approved credit card processing vendor.
2. Once the taxpayer has provided the required information, the IVR gives the taxpayer a confirmation number,

which serves as the taxpayer's receipt.

3. The taxpayer will be charged a convenience fee by the vendor for use of the automated credit card service.
4. The payment appears on the taxpayer's credit card statement as a payment to FTB.

With credit card payments, the date the taxpayer completes the credit card transaction is the effective date of the payment. That means that interest charges stop on that date, although FTB may not actually post the payment to the taxpayer's account until three to five days after the transaction.

Important: Making tax payments by credit card is confidential and safe. The credit card processor does not disclose the taxpayer's credit card number to FTB at any time during or after the transaction. Please remind your clients to remove their credit card numbers from any correspondence to FTB regarding their credit card payment. FTB can trace their credit card payment using their taxpayer identification number, the payment amount, date of the payment and the confirmation number.

New Payment Option Pays Off

Here are some program statistics for the Franchise Tax Board's credit card pilot program. The numbers are from January through June 30, 1999:

- **Credit card project implemented:** January 7, 1999
- **First credit card payment:** January 8, 1999 at 10:34 a.m., \$117
- **Smallest payment to date:** \$1.50
- **Largest single payment to date:** \$18,511
- **Total credit card payments to date:** 6,713
- **Total amount received to date:** \$5,034,000
- **Average payment to date:** \$750

FTB Calendar

July

- Requests for tax returns are mailed to individuals who have not filed their 1997 personal income tax return.
 - Notices of Proposed Assessment are mailed to individuals who have not filed their 1997 tax returns.
- 20 Previous month nonresident withholding payments are due if total withholding exceeded \$2,500.

August

- Requests for tax returns are mailed to individuals who have not filed their 1997 personal income tax return.
 - Notices of Proposed Assessment are mailed to individuals who have not filed their 1997 tax returns.
 - Notices of Proposed Assessment are mailed to corporations who have not filed their 1997 corporate tax returns
- 20 See July 20.
- 31 Last day to file Homeowner and Renter Assistance claims.

September

- Requests for tax returns are mailed to individuals who have not filed their 1997 personal income tax return.
 - Notices of Proposed Assessment are mailed to individuals who have not filed their 1997 tax returns.
- 15 1999 personal income tax estimate payments are due.
- 20 See July 20.

Need e-Filing Assistance?

If you need assistance or have questions about FTB's e-file or e-pay programs, you can get the information you need either by phone or on the Internet.

To talk to someone at the e-file Help Desk, call (916) 845-0353. Or visit the FTB website at www.ftb.ca.gov/elecserv.

Pilot in '94, e-file Flying High

Five years ago, the Franchise Tax Board implemented a limited pilot called electronic filing. A few savvy practitioners took notice and FTB took in several hundred tax returns electronically in 1994.

Today that pilot is known as e-file and this year it accounted for more than 1.5 million returns (1,314,131 e-file and on-line returns, and 263,669 Telefile returns). Here is why more and more of your clients are asking for e-file:

Increased marketing

FTB increased its e-file marketing efforts for the 1999 filing season. This year's campaign included radio advertising, appearances on public service television and links to e-file from professional and government organizations webpages on the Internet.

Direct deposit

Taxpayers like direct deposit. In 1999 FTB processed 462,000 direct deposit requests, an increase of 170 percent over 1998.

Direct Deposit allows taxpayers to have their tax refunds deposited directly into their bank accounts and is only available with e-file. With direct deposit, the tax refund will normally be deposited in the

Filing Season Statistics

The 1999 filing season featured increases in the number of personal income tax returns filed, e-file returns processed and number of personal income tax refunds issued. There was also an encouraging decrease in the number of paper returns received. Here is a summary of how the 1999 personal income tax filing season compared to 1998:

Returns Received

- Current-year returns -- 12,494,121 (Up 3.2 %).
- Paper returns -- 10,914,260 (Down 10 %).
- e-file returns -- 1,314,131 (Up 58%).
- Telefile returns -- 263,669 (Down 12%).

Refunds

- Amount refunded (current year returns) -- \$ 3,284,471,175 (up 34 %).
- Number of refunds issued (current year returns) -- 7,305,871 (up 12.6 %)

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More Returns to File? e-file Open Until Oct

Did you know that you can file your clients' returns electronically through October 15, 1999?

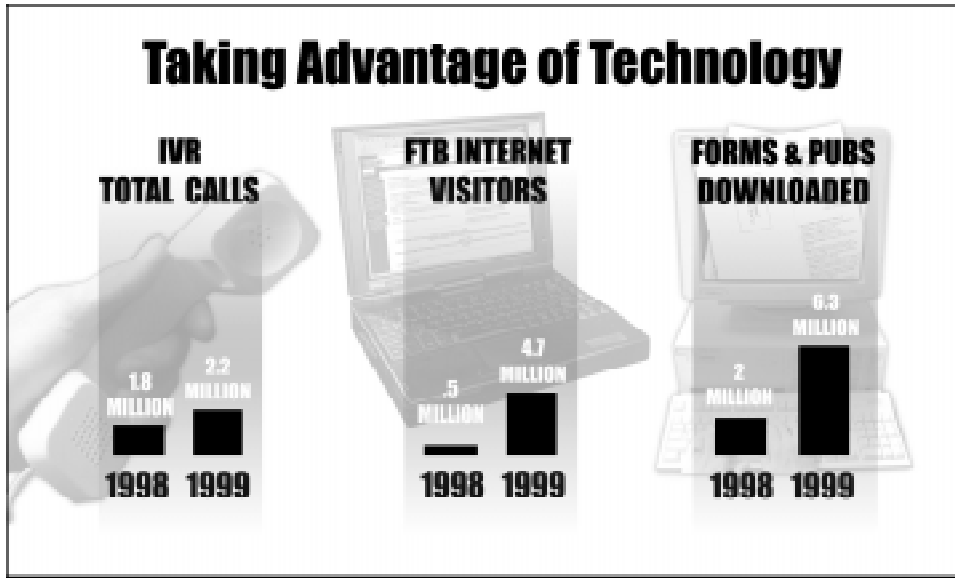
If you have clients who will be filing under FTB's automatic paperless extension program and you have been thinking about joining the e-file program, now would be a good time. You can see how the program works without the stress of the April 15 deadline and your clients can take advantage of the benefits of e-file:

- **Acknowledgment of receipt.** You and your clients won't have to worry about whether the Franchise Tax Board has

received their returns before the October 15 deadline;

- **Faster refunds.** If your client is getting a refund, he or she can have it electronically deposited into their bank accounts. Direct deposit is only available with e-file.
- **Electronic debit (e-pay).** e-filers with a balance due may authorize FTB to debit their bank accounts on a specified date for the amount due.

See the difference e-file can make in your business. Contact the e-file Help Desk at (916) 845-0353.



FTB Meets Customer Service Demands

For the 1999 filing season the Franchise Tax Board made it easier than ever for tax practitioners (and taxpayers) to get assistance filing their state tax returns. For the 1999 filing season the department increased its hours of operation, upgraded its telephone systems and made improvements to its website.

The extra effort paid off. FTB increased the number of calls into its interactive voice response system, visitors to its website and the number of tax forms downloaded from the website.

Tax Practitioner Help Available

The FTB Tax Practitioner Support Unit, which provides on-line and written assistance solely to qualified tax practitioners, attorneys, enrolled agents and certified public accountants is available to assist tax practitioners Monday through Friday, 8 a.m. to 5 p.m.

There are several ways to reach the Tax Practitioner Support Unit. If you have questions about account resolution problems or questions about tax law, call (916) 845-7057 or send the unit a fax with your question to (916) 845-6377.

Typically, the unit responds to questions received by fax within three working days. The maximum wait for a response by fax is seven working days.

If you have questions concerning the collection of personal income taxes, send a fax with your question to (916) 845-0494. The fax line number is available 24 hours a day, seven days a week. In most cases, a response is provided to the practitioner within 48 hours.

Get Forms 24-Hours a Day

The Franchise Tax Board's F.A.S.T. (Fast Answers About State Taxes) service provides recorded answers to more than 160 frequently-asked questions about state income taxes. The answers are available 24 hours a day, seven days a week.

F.A.S.T. has been expanded to allow callers to order personal income tax forms, obtain information about personal income tax refund status and payment and balance due information 24 hours a day as well (except from 10 p.m. Sunday through 5 a.m. Monday).

Callers can also obtain corporation tax forms from 6 a.m. to 8 p.m. Monday through Friday.

The toll-free number to call from within the United States is 800-338-0505. If calling from outside the United States, the number to call is (916)845-6600. This number is not toll-free.

Bookmark FTB Website

The Franchise Tax Board's Homepage is an Internet reference worth book marking.

The homepage features short articles with links to current information such as the most common filing errors and how to avoid them, and recent policy/procedure changes such as tax relief options for members of the armed forces and support personnel who are serving in Kosovo.

Stay informed. Bookmark the FTB Homepage located at www.ftb.ca.gov.

Tax Forms, Publications Available Online

Most tax forms and publications, from 1994 through the current year, can be viewed and printed through the Franchise Tax Board website at www.ftb.ca.gov.

The most common are fillable online. You can also use an automatic email feature to mail current year forms to yourself.

The email feature is especially useful for larger publications which may be time consuming or difficult to download when the Internet is busy.

Better Information Leads to Better Customer Service



An unfortunate by-product of the Franchise Tax Board's efforts to contact people who have not filed their tax return is the estimated 55,000 contacts with taxpayers who either do not have a filing requirement or have already filed their return.

Several of FTB's modernization projects show promise for eliminating unnecessary contacts. One of those projects is the Integrated Nonfiler Compliance Project.

The INC Project's primary goal is to improve the way the department uses the

information it receives from outside sources such as banks, financial institutions and the Internal Revenue Service.

Once implemented, INC will identify nonfilers by accurately associating income information with individuals and business entities that have not filed state tax returns and information reporters who have failed to meet their filing requirements.

INC gives FTB the tools necessary to eliminate unnecessary taxpayer contacts as well as improve customer service to all taxpayers. Other benefits of the new system include:

- The identification of more than 90,000 new nonfilers, resulting in a net revenue increase of \$36 million per year.
- Notices that are timely, tailored, clear, customer friendly and concise.
- Increased compliance with both current and future filing requirements to ensure that everyone pays their fair share of state taxes.

FTB is developing the INC Project with its business partner IBM. It is scheduled to be implemented by late 2000.

Five Reasons to File Schedules K-1 Electronically

Partnerships with many partners now have five good reasons to stop filing paper Schedules K-1. The first four reasons for eliminating paper Schedules K-1 are :

- CD-ROMS,
- Diskettes,
- Magnetic tape and
- Tape cartridges.

The fifth reason is TestWare, a free software program for editing the schedules. The TestWare program allows partnerships to edit K-1 files on diskettes before sending them to FTB.

To obtain the free software, download it from FTB's www.ftb.ca.gov website. Click on "Electronic Services" and then on "Businesses - Filing/Payments." Or call the electronic filing Help Desk at (916) 845-0353 between 8 a.m. and 5 p.m.

Client Moving? Let FTB Know

Moving from one address to another is a very common occurrence. Nearly 20 million Americans do it each year. Unfortunately, not all of the people who move notify their taxing agency of the new address.

Because of this, quite a few billing notices, requests for information and even refunds end up coming back from the post office as undeliverable.

The Franchise Tax Board is included in the list of agencies affected by all this movement.

For example, the FTB nonfiler program sends over 600,000 notices to individuals who appear to have a requirement to file a California tax return but have failed to do so. Approximately 80,000 of these are returned by the post office each year as undeliverable (due to the taxpayer moving). Historically, the nonfiler program was only able to find better addresses for about 25 percent of these individuals. However, in the last couple of years this number has increased to close to 75 percent.

To find more current addresses for taxpayers, FTB uses a variety of sources such as other governmental agencies, taxpayer employers and credit bureau reporting services.

FTB is now utilizing the best source for finding a new address -- the taxpayers themselves. Until recently, FTB didn't have an official "Change of Address" form. However, taxpayers can now use a form FTB 3533 to inform FTB of their new address when they move.

Form FTB 3533 is available at FTB's www.ftb.ca.gov Internet address, or you can write to:

Tax Forms Request
Franchise Tax Board
P O Box 307
Rancho Cordova, CA 95741-0307

If you are a representative filing for the taxpayer, attach a copy of your power of attorney to the change of address form.

Keep Tax News Coming

Is your Tax News subscription about to expire?

If so, the Franchise Tax Board will send you a renewal form by mail. Be sure to return the form immediately so that you will not miss any upcoming issues.

Remember: Tax News is also available by e-mail at no charge and it can be viewed on FTB's website at www.ftb.ca.gov.

If you have any questions about your Tax News subscription, call (916) 845-7070.

Before You Make an Offer in Compromise...

Continued From Page 3

Generally, the Franchise Tax Board approves an offer in compromise when the amount offered represents the most FTB can expect to collect within a reasonable period of time.

Although each case is evaluated based on its own unique set of facts and circumstances, FTB gives the following factors strong consideration in the evaluation:

- The taxpayer's ability to pay.
- The amount of equity in the taxpayer's assets.
- The taxpayer's present and future income.

- The taxpayer's present and future expenses.
- The potential for changed circumstances.

FTB will only process your client's offer in compromise application if all of the following are done:

- Your client has filed all of the required tax returns. If there is no filing requirement, note it on the application.
- Your client has fully completed the offer in compromise application, and provided all supporting documentation.
- Your client agrees with FTB on the amount of tax owed.

General Tax Reports Available on Internet

Many general publications can be viewed on the Franchise Tax Board's website.

Examples include FTB's Annual Report and the Deductible Dividend Report.

The latter report has a search feature that allows viewers to access the deductible dividend (percentage of dividends deductible under B&CTL Section 24402(a)) for specific corporations.

FTB's website address is www.ftb.ca.gov.

Out of State Leasing Companies

Notices Sent to Non-California Corporations with Income From Leases

In June, the Franchise Tax Board mailed approximately 30,000 notices to corporations requesting they file a California corporate tax return or complete a questionnaire to help the FTB determine if the corporation has a California filing requirement.

Many of these notices were mailed to out-of-state corporations or non-California corporations deriving income from leases.

Income from leased property located in California is considered California sourced income.

Out-of-state corporations deriving California source income from leases are subject to California income tax, not the

franchise tax imposed on corporations doing business in California.

The state in which the lease contract was executed has no bearing in determining the taxability of the leased income.

If your client receives a notice requesting a California corporation tax return, the corporation should respond within the 30-day period by filing the tax return FTB is requesting or completing the questionnaire.

FTB will review the completed questionnaire and notify the corporation of its final filing determination. Corporations that fail to file a return or complete the questionnaire will receive a Notice of Proposed Assessment.

If you would like additional information regarding franchise tax and income tax, please see FTB Publication 1063. This publication can be downloaded from FTB's Internet site at www.ftb.ca.gov.

e-filers Get Break on Head of Household Form

Head of Household Workshops Also Available

This filing season, the Franchise Tax Board tried something new with its head of household and e-file programs.

Taxpayers who used e-file and claimed the head of household filing status were offered the option of voluntarily completing a head of household questionnaire and including it with their e-file return.

Once FTB received the tax return, it was immediately processed and the refund was issued.

FTB also examined the head of household e-file questionnaire and, if the information provided indicated that the taxpayer was qualified, the head of household filing status was allowed and the taxpayer was not issued a head of household audit letter.

If any of your e-file clients completed the head of household questionnaire, remind them that submitting the questionnaire does not guarantee that they will not be contacted by FTB about their filing status.

If FTB needs more information to determine if a taxpayer qualifies for the head of household filing status, FTB will send the taxpayer a letter requesting additional information to verify his or her eligibility.

To help educate practitioners about the head of household filing status, FTB is continuing its Head of Household Workshop Program that began in 1998.

The workshops are geared towards helping practitioners better understand the head of household filing status.

Topics include a program overview, an explanation of the qualification criteria for using the head of household filing status and a discussion about important questions that practitioners should ask their clients who file head of household.

For additional information or to schedule a head of household workshop in your area, contact FTB's Head of Household Unit at (916) 845-6870 or (916) 845-6265.

Tax Business No Place for Fraud

The good news: Improved information sharing by the Franchise Tax Board, the Employment Development Department and California's employers has drastically reduced the occurrence of Form W-2 fraud carried out by individual taxpayers.

Now the bad news: Fraud itself has not disappeared. It just changed its appearance.

"The challenge of fraud discovery has not disappeared. Fraud has changed in appearance from individuals perpetrating fraud on their own behalf to tax practitioners who file returns for large groups of clients," said David Hill, a certified fraud examiner at FTB.

"Each year more than six million California taxpayers pay a tax professional to complete their federal and state income tax returns."

California is a bull market for tax professionals. Each year more than six million California taxpayers pay a tax professional to complete their federal and state income tax returns.

According to the FTB Fraud Prevention and Detection Group, unregistered tax practitioners are responsible for most of the fraudulent activity in the tax practitioner industry.

California law (Sections 22250-22259 of the California Business and Professions Code) states that registered tax practitioners must:

- Be a minimum of 18 years of age with a high school diploma.
- Post a \$5,000 surety bond.
- Complete an initial 60 hours of basic personal income tax instruction.
- Maintain 20 hours per year of continuing income tax education.

- Register with the California Tax Education Council (CTEC).

CTEC is a non-profit organization responsible for the administration of tax practitioner education requirements. Each year CTEC issues education completion certificates to practitioners who meet their annual education requirements.

Attorneys, certified public accountants, enrolled agents and designated bank officials have their own industry regulations and are exempt from these requirements.

California hopes to put tax fraud on a downward spiral by educating taxpayers and tax professionals on how to spot the warning signs for fraud. Every year, state tax officials advise consumers to be wary of individuals who represent themselves as tax practitioners but who do not meet state-mandated tax education requirements and refuse to identify themselves as tax practitioners on tax returns they have prepared.

Legitimate tax professionals must provide the client, in writing, their name, address, telephone number and evidence that they have a current tax practitioner surety bond.

The FTB Fraud Prevention and Detection Program staff works with CTEC and the Internal Revenue Service to educate tax practitioners of the state's requirements for preparing tax returns.

When a non-registered practitioner is identified, he or she is given a CTEC registration application, an explanation of CTEC, a copy of Sections 22250-22259 of the California Business and Professions Code and instructions on how to comply with the state's requirements.

For more information about CTEC or fraud prevention and detection, contact the Tax Practitioner Support Unit at (916) 845-7057 or send them a fax at (916) 845-6377.

Tax Agencies Offer Educational Opportunities

The Franchise Tax Board, along with the State Board of Equalization, Internal Revenue Service, Employment Development Department and other state, local and federal organizations, routinely offer free seminars for business owners and individual taxpayers.

For information about FTB's participation in these events, contact Alvaro Hernandez, FTB Small Business Tax Education Coordinator, at (916) 845-5257.

Also visit the BOE Web site at www.boe.ca.gov and click on "Taxpayer Education."

Electronic Filing, Direct Deposit Flying High

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taxpayer's bank account within 5-7 banking days from the date FTB acknowledges receipt of the e-file return.

Direct deposit is available to nearly all taxpayers who use e-file, including first-time filers.

e-pay

Since it's inception, nearly 20,000 taxpayers have opted to pay their balance due taxes with e-pay. FTB's e-pay program gives taxpayers the option of having their payment debited directly from their bank account instead of them mailing the department a paper check.

Taxpayers that elect to e-pay have the option of choosing the date to have FTB deduct their payment from their bank account.

For the 1998 tax year, taxpayers can select any day between January 15 and October 15, 1999.

Tax Practitioner Support

Once practitioners join the e-file program, they have access to FTB's e-file Helpdesk. The helpdesk, which only serves practitioners who e-file, is available 8 a.m. until 5 p.m., Monday through Friday. Contact the helpdesk at (916) 845-0353.

Tax News

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